

Message Text

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PAGE 01 MANILA 06156 241349Z

11

ACTION MC-02

INFO OCT-01 EA-11 ISO-00 PM-07 ACDA-19 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 L-03

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C O N F I D E N T I A L MANILA 6156

E.O. 11652: GDS

TAGS: MASS, RP, US

SUBJECT: M-16 RIFLE FACILITY

SUMMARY: COLT REPS HAVE INFORMED US THAT FOLLOWING PROBLEMS
REMAIN TO BE RESOLVED WITH GOP: (A) EXPORT PROVISION; (B)
PRICE INCREASES; AND (C) FINANCING. ALL THREE ARE POTENTIAL
STICKING POINTS, BUT COLF REQUEST FOR PRICE INCREASE IS
POTENTIALLY MOST TROUBLESOME. COLT HAS TILL NOT RECEIVED
WRITTEN GUIDANCE FROM MUNITIONS CONTROL (M/C) ON EXPORT
PROVISION. ACTION REQUESTED: (A) M/C TO EXPEDITE
GUIDANCE TO COLT WITH TELEGRAPHIC COPY TO EMBASSY; (B)
CLEAR INDICATION TO COLD BY DEPARTMENT AND DOD THAT STALLING
ON CARRYING OUT CONTRACT AS SIGNED CAN UNDERCUT GENERAL US
NEGOTIATING INTERESTS INVOLVED IN APPROVAL COLT CONTRACT.
END SUMMARY

1. COLT INDUSTRY REPS, CURRENTLY IN PHILIPPINES, HAVE
BRIEFED EMBASSY ON THREE PROBLEM AREAS STILL TO BE RESOLVED
BEFORE M-16 RIFLE PROJECT CAN PROCEED.

(A) EXPORT PROVISION - PROVISION IN COLT-GOP CONTRACT
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PAGE 02 MANILA 06156 241349Z

PERMITTING EXPORT OF 65,000 M-16S BEGINNING IN 1980 (SUB-

JECT USG AUTHORIZATION) WAS INSERTED DURING CONTRACT NEGOTIATIONS AT REQUEST DND UNDERSECRETARY SALIENTES. GOP VIEWS THIS PROVISION AS SIGNIFICANT ADVANTAGE AND IS UNDERSTANDABLY RELUCTANT GIVE IT UP. WHILE GOP CLEARLY UNDERSTANDS REQUIREMENT FOR PRIOR USG APPROVAL ANY EXPORTS, AS STATED IN BOTH MOU AND COLT-GOP CONTRACT, THEY DO NOT WISH TO HAVE THE CONTRACT WITH COLT ANY MORE RESTRICTIVE ON THIS POINT THAN IS THE MOU AND ARE VERY INTERESTED IN MAINTAINING SOME EXPLICIT FUTURE PRODUCTION OPTION. ACCORDING COLT REPS, COLT HEAD OFFICE HAS STILL NOT RECEIVED WRITTEN GUIDANCE RE EXPORT PROVISION FROM DEPARTMENT OF STATE. ACTION REQUESTED: EXPEDITIOUS DISPATCH OF LETTER TO COLT BY M/C, WITH COPY TO EMBASSY BY TELEGRAM. IT WOULD BE HELPFUL IF, TO EXTENT POSSIBLE, SOME FORMULA COULD BE FOUND TO PARALLEL MOU IN CONTRACT, MAKING EXPORT OR OTHER SALES SUBJECT USG APPROVAL.

(B) PRICE INCREASES - COLT REPS CLAIM THAT, DUE INFLATION IN US, PRICES FOR RIFLE KITS AND PARTS ARE SUBSTANTIALLY ABOVE THOSE QUOTED LAST FALL WHEN AGREEMENT SIGNED WITH GOP. ALTHOUGH FORMULA IN COLT-GOP AGREEMENT ALLOWS FOR YEARLY PRICE INCREASES IN 3-4 PERCENT RANGE, COLT NOW SEEKING TO OBTAIN GOP APPROVAL TO PEG PRICE ESCALATIONS TO US DEPARTMENT OF LABOR INDUSTRIAL COMMODITY INDEX, AS, COLT SAYS, IS CASE OF CONTRACTS WITH USG. RESULT, OF COURSE, WOULD BE SUBSTANTIAL IMMEDIATE INCREASE IN PRICES. COLT REPS HAVE GONE SO FAR AS TO HING TO US THAT COLT'S PERFORMANCE UNDER CONTRACT MAY BE AFFECTED IF REVISED PRICE FORMULA CANNOT BE ACHIEVED. MOREOVER, THEY CLAIM THAT DELAY BEYOND PERIOD STIPULATED IN MEETING CONTRACT PROVISIONS (INCLUDING FINANCING) GIVES THEM LEGAL RIGHT REOPEN PRICE QUESTION.

(C) FINANCIAL ARRANGEMENTS - ALTHOUGH CENTRAL BANK HAS ISSUED LETTER GUARANTEEING DOLLAR FINANCING FOR PROJECT OVER AND ABOVE THAT PROVIDED THROUGH FMS (SUBJECT AVAILABILITY OF FOREIGN EXCHANGE, AS REQUIRED UNDER FOREIGN BORROWING ACT), COLT IS CONTINUING PRESS FOR IRREVOCABLE LETTER OF CREDIT ARRANGED WITH CONNECTICUT BANK WHICH COLT CAN DRAW AGAINST AT SUCH TIME AS FMS FUNDS ARE EXHAUSTED. AS OF NOW, CONFIDENTIAL

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PAGE 03 MANILA 06156 241349Z

GOP'S POSITION IS THAT CB GUARANTEE OF FINANCING CARRIES FULL FAITH AND CREDIT OF GOP AND SHOULD MEET REQUIREMENT OF QUOTE FINANCING ACCEPTABLE TO COLT. UNQUOTE

2. COMMENT: ALTHOUGH ANY OR ALL OF PROBLEMS OUTLINED ABOVE COULD BECOME REAL STICKING POINT, PROPOSED PRICE INCREASE HOLDS GREATEST POTENTIAL FOR TROUBLE. WHILE SOME GOP OFFICIALS MAY APPEAR OUTWARDLY SYMPATHETIC TO

COLT'S PLEA, THEY WILL NOT GIVE IN EASILY. MOREOVER, SHOULD COLT'S PERFORMANCE BE LESS THAN THAT CALLED FOR UNDER CONTRACT, WE CAN EXPECT CONSIDERABLE PRESSURE FROM GOP TO SET THINGS STRAIGHT.

3. WE HAVE STRESSED TO COLT REPS THAT SUCCESS OR FAILURE OF M-16 RIFLE PROJECT MUST BE TAKEN IN CONTEXT OF OUR OVERALL RELATIONS WITH GOP AS WELL AS IN CONTEXT OF COLT'S CORPORATE REPUTATION. DURING CALL OF COLT REPS ON AMBASSADOR, WE TOOK POSITION THAT COLT EFFORT TO RENEGOTIATE CONTRACT ON PRICE ESCALATOR AT THIS STAGE RUNS COUNTER TO (A) MUTUALLY AGREED BASIS ON WHICH DELAY IN FINAL SIGNING OF MOU WAS UNDERTAKEN, (B) PRICE DATA ANNEXED TO MOU, WHICH BECAME EXPLICIT PART OF GOVERNMENT-TO-GOVERNMENT AGREEMENT ON SIGNATURE MAY 17. ACTION REQUESTED: CLEAR REITERATION TO COLT BY DOD AND DEPARTMENT OF FOREGOING POINTS AS WELL AS STRONG INDICATION THAT STALLING ON CARRYING OUT CONTRACT AS SIGNED CAN UNDERCUT SEVERAL US NEGOTIATING INTERESTS INVOLVED IN APPROVAL COLT PROJECT.
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